

**REPORT OF THE AUDIT OF THE
FORMER EDMONSON COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
May 1, 2007 Through July 31, 2008**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER EDMONSON COUNTY SHERIFF'S SETTLEMENT - 2007 TAXES

**For The Period
May 1, 2007 Through July 31, 2008**

The Auditor of Public Accounts has completed the audit of the former Sheriff's Settlement - 2007 Taxes for the former Edmonson County Sheriff for the period May 1, 2007 Through July 31, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$3,126,009 for the districts for 2007 taxes, retaining commissions of \$124,818 to operate the Sheriff's office. The former Sheriff distributed taxes of \$2,997,780 to the districts for 2007 taxes. Taxes of \$440 are due to the districts from the Sheriff and refunds of \$54 are due to the Sheriff from the taxing districts.

Report Comments:

- The Former Sheriff Has A \$1,488 Deficit In His Tax Account
- The Former Sheriff Had A Lack Of Segregation Of Duties
- The Former Sheriff Did Not Distribute Interest Earned As Required By KRS 134.140 (3)(b)

Deposits:

The former Sheriff's deposits as of December 10, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$30,335

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable N.E. Reed, Edmonson County Judge/Executive

Honorable B.J. Honeycutt, Former Edmonson County Sheriff

Honorable Mike Vincent, Edmonson County Sheriff

Members of the Edmonson County Fiscal Court

Independent Auditor's Report

We have audited the former Edmonson County Sheriff's Settlement - 2007 Taxes for the period May 1, 2007 through July 31, 2008. This tax settlement is the responsibility of the former Edmonson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Edmonson County Sheriff's taxes charged, credited, and paid for the period May 1, 2007 through July 31, 2008, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable N.E. Reed, Edmonson County Judge/Executive
Honorable B.J. Honeycutt, Former Edmonson County Sheriff
Honorable Mike Vincent, Edmonson County Sheriff
Members of the Edmonson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2009 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Has A \$1,488 Deficit In His Tax Account
- The Former Sheriff Had A Lack Of Segregation Of Duties
- The Former Sheriff Did Not Distribute Interest Earned As Required By KRS 134.140 (3)(b)

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 16, 2009

EDMONSON COUNTY
B.J. HONEYCUTT, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period May 1, 2007 Through July 31, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 494,091	\$ 436,274	\$ 1,506,180	\$ 494,091
Tangible Personal Property	13,647	18,863	27,433	28,744
Fire Protection	1,226			
Franchise Taxes	37,372	45,932	76,453	
Additional Billings	687	691	1,994	813
Oil and Gas Property Taxes	2,100	1,762	6,402	2,100
Penalties	6,264	5,543	18,975	6,311
Adjusted to Sheriff's Receipt	<u>(344)</u>	<u>(192)</u>	<u>(1,963)</u>	<u>(192)</u>
Gross Chargeable to Sheriff	<u>555,043</u>	<u>508,873</u>	<u>1,635,474</u>	<u>531,867</u>
<u>Credits</u>				
Exonerations	1,613	1,425	4,812	1,741
Discounts	7,576	6,952	22,459	7,423
Delinquents:				
Real Estate	8,470	7,221	25,809	8,467
Tangible Personal Property	136	209	273	313
Franchise - Delinquent	3	5	6	
Franchise - Uncollected	<u>335</u>			
Total Credits	<u>18,133</u>	<u>15,812</u>	<u>53,359</u>	<u>17,944</u>
Taxes Collected	536,910	493,061	1,582,115	513,923
Less: Commissions *	<u>23,106</u>	<u>20,254</u>	<u>59,329</u>	<u>22,129</u>
Taxes Due	513,804	472,807	1,522,786	491,794
Taxes Paid	513,145	472,346	1,521,109	491,180
Refunds (Current and Prior Year)	<u>516</u>	<u>439</u>	<u>1,536</u>	<u>534</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Audit	<u>\$ 143</u>	<u>\$ 22</u>	<u>\$ 141</u>	<u>\$ 80</u>

* and ** See next page

The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY
B.J. HONEYCUTT, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES
For The Period May 1, 2007 Through July 31, 2008
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,253,461
4% on	\$	280,433
3.75% on	\$	1,582,115

** Special Taxing Districts:

Library District	\$	75
Ambulance District		(54)
City of Brownsville		<u>1</u>

Due District or		
(Refunds Due Sheriff)	\$	<u><u>22</u></u>

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT

July 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Edmonson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
July 31, 2008
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Edmonson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On December 10, 2007, the former Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$30,335

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 2, 2007 through July 31, 2008

Note 4. Interest Income

The former Edmonson County Sheriff earned \$2,191 as interest income on 2007 taxes. As of January 16, 2009, the former Sheriff owed 796 in interest to the school district and \$831 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The former Edmonson County Sheriff collected \$31,850 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the former Sheriff's office. As of January 16, 2009, the former Sheriff owed \$1,360 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The former Edmonson County Sheriff collected \$1,036 of advertising costs and \$2,986 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

EDMONSON COUNTY
B.J. HONEYCUTT, FORMER SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

For The Period May 1, 2007 Through July 31, 2008

Assets

Cash in Bank (All Tax Accounts)	\$ 3,589
Receivables:	
Commissions - School	108
Ambulance	54
Check Charges Due From Fee Account	<u>93</u>
Total Assets	<u>3,844</u>

Liabilities

Unpaid Obligations-	
Other Taxing Districts-	
State	\$ 80
County	143
School	141
Library	75
Refunds Due Taxpayers	1,280
Tax Commissions Due Sheriff's Fee Account	626
Interest Due School	796
Interest Due County Treasurer	831
Add On Fees Due Sheriff's Fee Account	<u>1,360</u>
Total Liabilities	<u>5,332</u>
Total Fund Deficit as of July 31, 2008	<u><u>\$ (1,488)</u></u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable N.E. Reed, Edmonson County Judge/Executive
Honorable B.J. Honeycutt, Former Edmonson County Sheriff
Honorable Mike Vincent, Edmonson County Sheriff
Members of the Edmonson County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Edmonson County Sheriff's Settlement - 2007 Taxes for the period May 1, 2007 through July 31, 2008, and have issued our report thereon dated January 16, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Edmonson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Edmonson County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Edmonson County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff Had A Lack Of Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Edmonson County Sheriff's Settlement – 2007 Taxes for the period May 1, 2007 through July 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations:

- The Former Sheriff Has A \$1,488 Deficit In His Tax Account
- The Former Sheriff Did Not Distribute Interest Earned As Required By KRS 134.140 (3)(b)

The former Edmonson County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the former Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Edmonson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 16, 2009

COMMENTS AND RECOMMENDATIONS

EDMONSON COUNTY
B.J. HONEYCUTT, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 1, 2007 Through July 31, 2008

STATE LAWS AND REGULATIONS:

The Former Sheriff Has A \$1,488 Deficit In His Tax Account

During testing, we noted a \$1,488 deficit in the former Sheriff's official tax account. The deficit results from 10% penalty and 10% Sheriff add on fees not properly collected by the former Sheriff. We recommend the former Sheriff remit \$1,488 of personal funds to his official tax account in order to eliminate the deficit.

Former Sheriff's Response: As soon as the auditors brought this to my attention it was taken care of.

The Former Sheriff Did Not Distribute Interest Earned As Required By KRS 134.140 (3)(b)

During testing, we noted that the former Sheriff did not distribute interest earned on the tax account monthly. The former Sheriff should have distributed the interest earned on the tax account to the school district and former Sheriff's fee account monthly on as required by KRS 134.140 (3)(b).

Former Sheriff's Response: None.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS

The Former Sheriff Had A Lack Of Segregation Of Duties

During our review of internal controls, we noted the following control deficiency pursuant to professional auditing standards:

- The former Sheriff's bookkeeper collected money, prepared deposits, and prepared daily collection printout. The former Sheriff's bookkeeper prepared monthly reports and prepared checks to taxing districts. The former Sheriff or another individual did not document oversight of any of these activities.

No compensating controls were noted to offset this control deficiency. Therefore, the control deficiency as described above is a significant deficiency and a material weakness. The former Sheriff should have implemented the compensating controls noted below to offset this internal control weakness.

Former Sheriff's Response: None.

